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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

27 February 1957

STAFF MEMORANDUM No. 11-57*

SUBJECT: The Present Situation in Spain

1. Conclusions. Franco's power position has been weakened by a deteriorating economic situation, growing student and labor opposition, and factionalism within the ruling coalition. However, the army and police remain loyal, and the rightist groups (the business, landholding and church interests) backing the caudillo have given little indication that they are ready to defect from Franco and risk the grave danger of internal turmoil that would result from Franco's overthrow. We believe, therefore, that while popular resentment may continue to grow, Franco will be able to control the situation for at least the next several years.

2. Background. NIE 27.1-56 ("Probable Developments in Spain") of 12 June 1956 was produced in response to concern over the ominous intellectual ferment manifested in the February 1956 student disturbances and the growing labor discontent, which resulted in a wave of strikes in the Cantabrian and Barcelona areas in April-May 1956. NIE 27.1-56 concluded that the stability of the Franco regime was not seriously threatened by this unrest. Although we anticipated that student and labor opposition would probably exert increasing pressure upon the regime, we concluded that the Franco regime would probably be able to remain in power for at least several more years. In discussing the economic situation, the estimate pointed to inflation as the most serious economic problem facing the government. However, the government was considered capable, barring serious adverse weather conditions, of preventing inflationary trends from getting entirely out of hand.

3. Recent trends. Since June 1956 the major trends in Spain have been basically those anticipated in NIE 27.1-56. Urban labor, despite a 40 per cent wage increase in November and the imposition of government price controls in December to halt the price spiral, has recently manifested its continued discontent over the price rises that have occurred since

* This memorandum has been coordinated with OCI.

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November by public transport boycotts in Barcelona, Madrid, and Seville in protest against increased fares. Students also joined the boycott, and recent student demonstrations have led to the suspension of classes at the universities in Seville and Barcelona. Inflationary pressures have grown more severe since mid-1956, and have been especially strong in the past three months. The cost of living rose eight per cent during 1956, but reliable figures are not available for the accelerating trend during 1957.

4. Despite the dangers inherent in the present inflationary trend, we do not believe that Spain is now on the threshold of runaway inflation. The government itself, through the deficit financing* of an ambitious public investment program, the failure to curb the rapid growth of credit, and the granting of liberal wage increases, is largely responsible for the present trends. Just as it had the power to promote the present boom, it has the power to retrench.

5. Spain's balance of payments situation, though it deteriorated in 1956, is not yet critical. Spain will not have to cut imports drastically in 1957. Dollar and gold reserves, \$221 million at the end of 1955, were down to \$149 million at the end of 1956, and are now at the 1953 level. However, US aid-financed imports should enable Spanish output to be maintained, or even increased, during the current year and in 1958, unless a serious drought occurs.

6. Since the beginning of the year the stability of the regime has been somewhat threatened by the activities of the Falange. Concerned over the growing labor-student opposition, Franco in May of 1956 apparently endorsed the Falange drive to win support from the laborers through a policy of concessions, to constitutionalize the Falange's role in Spain's political life, and to guarantee the Falange the right to help choose Franco's successor. However, the rightist groups in the governing

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| * Budget deficits: | 1953 - \$14 million |
| | 1954 - \$210 million |
| | 1955 - \$323 million |
| | 1956 - \$470 million |
| ** Current account deficits: | 1955 - \$128 million |
| | 1956 - \$334 million |

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coalition, including the military, reacted, and at the year's end, friction among the government's supporters, particularly between the Falange and anti-Falange groups, had notably increased. In the showdown, Franco seems to have sided with the latter, and has apparently jettisoned most of the Falange-sponsored program.

7. On 25 February, Franco carried out a major cabinet reshuffle, the first since 1951. He named 12 new cabinet members and created two new ministries. Although it is still too early to estimate the ultimate significance of this move, the traditional balance among Falangists, Monarchists, church, and military men in the various cabinet posts has not been upset. Consequently the political orientation of the regime remains unchanged. What the cabinet change means with respect to economic policy is not yet clear. The creation of a Ministry of Economic Cooperation, and the setting up of a special committee to study the modernization and improvement of the state machinery may indicate that Franco is prepared to launch a more vigorous program to alleviate Spain's economic difficulties. On the other hand, the dismissal of the austerity-minded Ministers of Commerce and Finance indicates that the "soft-money" advocates have gained the upper hand. Consequently, the problem of inflation may become more serious.

8. Probable developments. The increased factionalism at the top, combined with the growing popular antagonism from below has resulted in much speculation about the early disintegration of the regime, and some observers have been openly predicting that a military junta will soon take over. We do not believe this will happen in the near future for the following reasons:

a. The army, the key to the situation, appears loyal, particularly since Franco apparently heeded its warnings not to allow the Falange to get too powerful. Also latent military discontent in the lower officer ranks was probably somewhat mitigated by the liberal June 1956 pay increase. Further, during the recent transportation boycotts and student demonstrations, the police demonstrated that they were capable of restoring and maintaining order. We have no persuasive evidence of disloyalty among the armed forces.

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b. The rightist coalition is still held together by its fear of the left. They now have no alternative leader possessing the political sagacity and military prestige of Franco, and they are generally eager to avoid any political experimentation that might lead to civil war.

c. The Falange, though disgruntled over its recent setback, is unlikely to break openly with the regime for it has much to lose by such a break. It is one of the weakest of the coalition groups and its immediate potential for alliance with the left is very limited.

9. On the whole, it seems reasonable to anticipate that Franco and his backers, because of necessity, will make the required efforts to prevent the present economic crises from getting out of hand. Any retrenchment the regime undertakes is likely to be mild. Thus, it is unlikely that a serious unemployment problem will be created or that Franco's business backers will be squeezed to the point of defection. If, however, Franco fails to take effective action to slow down the present inflation and develop a sounder economic program, popular discontent and anti-regime demonstrations may snowball to the point where widespread repression by the police would be necessary. In this eventuality, the ruling rightist coalition might attempt to make Franco the scapegoat, and substitute a military junta. Over the longer term, the Franco regime will be increasingly confronted with the problem of alleviating the rising dissatisfaction of the population.

10. Validity of NIE 27.1-56: We still consider NIE 27.1-56 generally valid. We therefore believe that there would be little or no intelligence value in producing a new estimate on Spain at this time. We do feel, however, that we are severely handicapped by a lack of knowledge about what is going on within the regime. The Post Mortem to NIE 27.1-56, which noted intelligence deficiencies, especially with respect to the Falange, the army, and business interests, has thus far resulted in no discernible improvement in the intelligence coverage on the rightist groups backing the Franco regime.

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